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## **European Union**

## **Sugar**

## **Annual**

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Approved by:

**Mary Revelt**

**U.S. Mission to the European Union, Brussels**

Prepared by:

Christine Strossman

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### **Report Highlights:**

**In 2001/2002, the first year of the new EU sugar regime, production decreased 12.3 percent due to poor planting and growing conditions. In 2002/2003, production and exports should return to normal levels.**

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Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

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## Executive Summary

In 2001/2002, EU sugar production decreased by 12.3 percent from the previous year. The reduction is attributed to poor planting, growing and harvesting conditions throughout the year. While sowing is not yet completed for the 2002/2003 marketing year, beet area is estimated to increase slightly by 2 - 3 percent. If growing conditions permit normal yields, this could lead to an 8.3 percent increase in production in 2002/2003.

Supply and demand balancing in the current EU sugar regime consists primarily of managing C-sugar supplies; either selling C-sugar on the world market without subsidy or carrying it over to the following marketing year. Due to the poor harvest in 2001/2002, C-sugar supplies are lower relative to previous years. More of the C-sugar is expected to be exported, rather than carried over as world prices have improved from record-low 1999/2000 levels and storage subsidies are no longer available for stored sugar. These factors will have the same effect in 2002/2003, when C-sugar supplies should increase due to increased production, leading to a forecast of increased overall sugar exports in 2002/2003.

The new sugar regime which went into effect starting in the 2001/2002 marketing year, is expected to remain in place until 2005/2006. The nature of any future reform is unknown at this time and will have to take into account the increased liberalization of trade vis-a-vis developing countries, WTO negotiations and enlargement to up to ten new EU member states.

## Production

### Production-Supply-Demand Table

(Figures in 1,000 MT of raw sugar equivalent)

PSD Table						
Country	European Union					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Beginning Stocks	3730	3730	2840	3062	2468	2689
Beet Sugar Production	18238	18238	15897	15968	0	17313
Cane Sugar Production	282	282	281	270	0	276
TOTAL Sugar Production	18520	18520	16178	16238	0	17589
Raw Imports	1750	1735	1750	1750	0	1750
Refined Imp.(Raw Val)	100	104	100	100	0	100
TOTAL Imports	1850	1839	1850	1850	0	1850
TOTAL SUPPLY	24100	24089	20868	21150	2468	22128
Raw Exports	2	18	2	2	0	2
Refined Exp.(Raw Val)	6598	6589	3698	4008	0	4818
TOTAL EXPORTS	6600	6607	3700	4010	0	4820
Human Dom. Consumption	14649	14409	14689	14440	0	14489
Feed Dom. Consumption	11	11	11	11	0	11
TOTAL Dom. Consumption	14660	14420	14700	14451	0	14500
Ending Stocks	2840	3062	2468	2689	0	2808
TOTAL DISTRIBUTION	24100	24089	20868	21150	0	22128

Notes: When converting from white to raw sugar, a conversion factor of 1.087 is used. Sugar produced in French Overseas Departments are included in production data and excluded from trade data. Sugar-containing products are excluded from trade data. Therefore, domestic consumption includes an additional 0.5 MMT to account for net trade in sugar-containing products.

### General

Planted area decreased slightly in 2001/2002 by 1.8%, as a result of delayed and reduced sowing due to heavy spring rains. This combined with poor growing conditions caused yields for the 2001/2002 crop to drop 11% from the previous year. While yields decreased in nearly all member states, yields in major producing countries like France,

Germany and the UK were among the most severely affected, dropping by 20%, 14.3% and 9.9% respectively (keeping in mind that 2000/2001 yields were higher than average in France and Germany). Yields in the UK were also affected by a high incidence of soil-borne rhizomania beet disease, which causes reduced yield and sugar content. As a result of these factors, total EU sugarbeet production for 2001/2002 amounted to 16.238 MMT of raw sugar equivalent, a drop of 12.3% from the previous year.

As a result of the sharp decrease in production, C-sugar supplies (any amount of sugar exceeding the A and B sugar production quotas) are also expected to be much smaller. Total C-sugar production is estimated at 1.915 MMT raw sugar equivalent, down 63% from 5.180 MMT in 2000/2001. Of this, 421,756 MT is expected to be carried over to 2002/2003 (counting against next year's quota production) and 1,493,538 MT is to be exported. C-sugar must be either carried over or exported without subsidy. Less C-sugar is expected to be carried over this year because producers took advantage of relatively higher world refined sugar prices in December and January to export C-sugar. Also, under the new sugar regime put in place in July 2001, storage re-imbursement is no longer available for quota sugar, so C sugar (which becomes A sugar when carried over) is more costly to store.

Planting for the 2002/2003 marketing year is just beginning. While planting has been delayed in some areas (such as Belgium) due to early spring wet weather, current sunny conditions indicate generally normal planting conditions in the region. Plantings are estimated to be similar to 2001/2002, with slight increases in France, Sweden, Germany and a return to the normal level of plantings in Italy. After last year's poor harvest, current conditions indicate a return to average yield levels which would represent an overall increase in yields of 7.4% over 2001/2002. Although exceptionally bad or good weather during the upcoming growing season and harvest period could impact yield estimates, total EU sugar output is currently forecast to increase by 8.3% in 2002/2003.

Due to expectations of low world prices and large Brazilian production, growers are not expected to plant with the intention of producing any more C sugar than usual specifically directed for exports. However, with plantings designed to ensure that A and B quotas are met even under poor growing conditions (such as last year), normal yield levels will result in higher C sugar production. In addition, with overall production expected to return to normal levels, there is a possibility that the Commission may need to apply a reduction coefficient to A and B quotas as was done in 2000/2001 to make sure WTO commitments are met. The need for such an action will be better known as the growing season progresses, and in any case, a reduction would not be expected to be announced before October 2002.

Table 1: Total sugar production in the EU (in 1,000 MT raw value)

	2000/01	2001/02 prelim.	2002/03 forecast
Austria	447	461	475
Belgium	1024	913	996
Denmark	579	520	512
Finland	166	159	161
France - beet	4685	4007	4740
France - cane	274	262	267

Germany	4738	4046	4165
Greece	399	341	311
Ireland	238	228	223
Italy	1687	1395	1675
Netherlands	1153	1036	1066
Portugal	62	61	42
Spain - beet	1171	1023	1006
Spain - cane	9	7	9
Sweden	448	437	434
U.K.	1440	1342	1506
Total EU-15	18520	16238	17589

Table 2: EU sugar crop data and yield levels

Member state	Area (1,000 HA)			Yield (MT of raw beet sugar per HA)		
	2000/01	2001/02 Prelim.	2002/03 Forecast	2000/01	2001/02 Prelim.	2002/03 Forecast
Austria	43	45	45	9.78	9.66	9.97
Belgium/Lux.	95	96	96	10.78	9.51	10.38
Denmark	58	56	56	9.99	9.28	9.14
Finland	32	31	31	5.20	5.12	5.21
France	361	386	396	12.98	10.38	11.98
Germany	451	449	454	10.46	8.96	9.13
Greece	50	43	43	7.98	7.94	7.24
Ireland	33	31	31	7.21	7.36	7.18
Italy	249	220	250	6.78	6.34	6.70
Netherlands	112	109	109	10.30	9.50	9.78
Portugal	8	5	5	7.74	12.17	8.32
Spain	130	114	115	9.01	8.97	8.75

Sweden	55	54	56	8.14	8.09	7.79
U.K.	146	151	151	9.86	8.89	9.98
Total EU-15	1823	1790	1838	9.98	8.89	9.55

Note: Area does not include sugar cane in the DOM.(French Overseas Departments) Area does include cane area in Spain.

While during the marketing years 1994/95 - 2000/01, the production of isoglucose has hovered around the production quota level, inulin syrup production has increased substantially, but still has not reached the total quota level. EU total production figures for isoglucose and inulin syrup are shown in the table below.

Table 3: Production of isoglucose and inulin syrup in the EU, MY 1994/95 - 2000/01

	Isoglucose MT of dry matter	Inulin syrup MT of dry matter
1994/95	295,872	81,012
1995/96	302,707	128,246
1996/97	302,026	175,909
1997/98	302,722	217,960
1998/99	303,011	156,344
1999/00	304,853	230,046
2000/01	291,953	229,280

## Consumption

### General

Consumption on the EU domestic sugar market has been stable and is not expected to change significantly in the future. During the 1990s EU sugar consumption has hovered around 12.7 - 12.8 MMT white sugar (13.8 - 13.9 MMT raw sugar equivalent) annually. At present, per capita consumption of white sugar equals about 34 kg per year. Although the use of isoglucose has gradually replaced a part of EU sugar use, sugar still represents about 80 percent of all sweetener consumption in the EU. A continued expansion in the use of isoglucose is made impossible through a system of isoglucose production quotas. EU inulin syrup output is also subject to production quotas, but while production has increased significantly, these annual quotas have not been filled to date as the food processing industry sees it as an expensive alternative.

Per capita, southern EU countries (Italy, Greece, Portugal and Spain) consume much less sugar than northern EU countries. EU countries known to consume the most are Belgium, Denmark, Finland and Sweden. It should be noted

that calculations of sugar consumption per capita include industrial consumption, i.e., sugar use by the food industry, without taking account of intra-EU exports of sugar-containing products. It is estimated that 70 percent of sugar use is in the form of processed products, whereby sugar represents less than 5 percent of the final product.

Table 4: Sugar consumption in the EU-15, 1,000 MT of raw sugar 1/

Member state	1999/2000	2000/01 prelim.	2001/02 estim.
Denmark	245	254	254
Germany	2,990	3,013	2,983
Greece	333	339	339
Spain	1,378	1,349	1,348
France	2,372	2,272	2,325
Ireland	147	123	147
Italy	1,526	1,532	1,582
Netherlands	698	712	685
Austria	336	323	323
Portugal	355	361	358
Finland	234	226	226
Sweden	408	410	407
Belgium/Lux.	591	582	582
U.K.	2,401	2,425	2,391
Total EU-15	14,014	13,920	13,951
+ net trade in sugar-containing products 2/	500	500	500
Total domestic consumption	14,514	14,420	14,451

Source: 1999/2000, 2000/01: European Commission; 2001/02: Post estimates based on partial European Commission data.

#### Consumption of sugar by the chemical industry

The EU grants production refunds for products (raw sugar, unprocessed isoglucose, and sucrose syrups) which are used in the manufacture of certain products of the chemical industry. Some examples of chemical products are: glycerol, pharmaceutical products, glues, enzymes, plastic materials, cellulose esters, and ethers. Effective April 1, 2002 the production refund granted to the chemical industry in the EU for using high-cost EU sugar was set at  $\text{€ } 37.368/100 \text{ kg}$  of white sugar. Refund levels are calculated monthly by taking the difference between the EU intervention price for sugar, and the world market price minus a standard amount of  $\text{€ } 6.45$  per 100 kg of white sugar.

The chemical industry obtains production refunds as a compensation for the competition it faces from duty-free imports of chemical products from producers which are able to source raw materials at the world market price. Use of sugar by the chemical industry totaled 306,186 tonnes white sugar equivalent in 2000/2001. Expenditure on refunds on sugar used in the chemical industry amounted to  $\text{€ } 135.7$  million in financial year 2000, while appropriations for financial year 2001 and 2002 are set at  $\text{€ } 121$  million and  $\text{€ } 138$  million respectively. Before the new sugar regime went into effect in 2001, 60,000 MT worth of the refunds were financed from the EU budget, with the rest covered by producer levies. The new regime abolished the EU financing and now all expenditure must be paid back through producer levies.

### **Use of sugar in processed products**

Sugar is one of the five basic products used as a raw material in the manufacture of second-stage processed foods, such as chocolate, cookies and ice cream. Because the Common Market Organization (CMO) for sugar leads to higher sugar prices and therefore higher input costs for second-stage processors, export refunds are available to help make these products competitive on world markets. The level of refund is calculated based on the amount of sugar used in the final product and the difference between the world market price for sugar and the EU intervention price. EU food processors contend that the refunds do not fully compensate for the higher cost of EU sugar because the market price for white sugar purchased by processors is 8-20% higher than the intervention price.

Like other agricultural products, refunds on the sugar-content of processed products are subject to GATT constraints with regard to budgetary outlays for export subsidies. These restrictions have resulted in concrete measures to reduce export subsidies for processed products. The number of products qualifying for export refunds has been reduced and subsidy levels granted for certain products have been decreased. In 2000/01, expenditures on processed product export subsidies could not exceed  $\text{€ } 415$  million and rollover of unused amounts from previous years was not allowed. The EU's 2000/2001 export subsidy notification indicates that these commitments have been met, leading to a decrease in expenditure of 42% compared to 1999/2000. While increased use of inward processing is seen as one substitute for the refunds, detailed implementing rules for a simplified inward processing facility have not been adopted. In addition, due to the administrative burden, inward processing is not viewed favorably by the food processing industry.

### **Biofuels**

On June 28, 2001, the European Commission proposed a draft biofuels directive, which would obligate Member States to ensure that a minimum of two percent of the transport fuel sold on their territory consists of biofuels by the year 2005. From that point, the amount of biofuels would gradually increase, reaching five percent by 2009. The proposal also would allow Member States to give favorable tax treatment to biofuels to encourage their use. This part of the proposal is controversial however as it would impact Member State revenues. Final adoption of the directive is not expected for another two years or more as the proposal must now be reviewed by the European Parliament and

Council. Parliament sources indicate that the proposal would not be passed by the Parliament in its current form. Please see GAIN report #E21099 for more details on the proposal.

Increased use of biofuels in Europe could have an impact on the sugar market. However, with the final form of the biofuels directive still unknown, its full significance for sugar is still unclear. Because of the relative costs and benefits of the various biofuel raw materials (sugar beet, wheat, oilseeds), including the environmental externalities of increased production of these crops, an increase in the use of biofuels would most likely result in only a modest increase in the production of sugar beets. This is partly due to the fact that sugar beets must be processed immediately after harvest, leading to unused capacity in refineries during the rest of the year. Also, because of certain limitations of ethanol as a fuel, biodiesel, produced from oilseeds, is seen as more promising for future expansion. In addition, ethanol is available from the world market at a more competitive price than would be attainable from EU-produced beets.

## **Trade**

### **Imports**

Given the high level of the Common Customs Tariff, imports of sugar into the EU consist mostly of preferential imports, either duty-free or reduced-duty (see Policy - Import Policy). Apart from guaranteeing sufficient raw material supplies to EU sugar refineries, the preferential trade links between the EU and certain African, Caribbean and Pacific (ACP) countries provide the ACP countries with a steady income. Because the EU is a surplus producer of sugar (even during poor production years such as 2001/2002) and the fact that imports are highly regulated, wide variations in imports from year to year are not usually observed.

Sugar imports into the EU during the period October 1, 2000 - September 30, 2001 are listed in Annex I. In comparison with the same period in 1999/2000, imports increased by approximately three percent to 1.839 MMT raw sugar equivalent. The five main countries of origin in 2000/2001 were: Mauritius 555,402 MT, Fiji 242,504 MT, Guyana 196,735 MT, Swaziland 170,248 MT and Jamaica 145,030 MT. Combined, these five countries represented 71% of EU imports of sugar in 2000/2001.

### **Exports**

EU sugar exports to third countries consist of both subsidized and unsubsidized sugar. In 2000/2001, total sugar exports increased approximately eight percent to 6.61 MMT (raw sugar equivalent). The increase was due the fact that a higher proportion of C-sugar was exported instead of carried over to the following marketing year. This was due to several factors, including relatively higher prices for refined sugar on the world market as well as producer uncertainty about the future of storage subsidies under the new sugar regime. In addition, the A and B quotas were reduced in 2000/2001 (see Policy) which increased the C-sugar supply. C-sugar has to be sold to third countries before January 1 following the end of the marketing year in which it was produced.

The ten largest destination markets for EU sugar in 2000/2001 were: Algeria 832,873 MT, Syria 459,194 MT, Israel 404,714 MT, U.A. Emirates 289,364 MT, Egypt 283,211 MT, Russia 230,993 MT, Iraq 228,218 MT, Nigeria 192,656 MT, Sri Lanka 189,193 MT and Norway 189,050 MT. While the vast majority of EU sugar exports are of refined sugar, a shipment of raw beet sugar from Sweden to Kazakhstan in December 2000 caused exports in this

category to jump from 1,914 MT in 1999/2000 to 18,402 MT in 2000/2001. Raw sugar exports are expected to return to their normal level in 2001/2002.

Given relatively lower C-sugar supplies in 2001/2002 due to the poor harvest, total exports in 2001/2002 are estimated to decline by nearly 40% to 4.01 MMT (raw sugar equivalent). Use of export subsidies is not expected to increase substantially as licenses issued so far this marketing year are on par with the level of licenses issued at this same time last year and Brazilian sugar is expected to depress the market during the rest of the license series (through July 2002).

## **Stocks**

Sugar stocks in the EU consist of free (unregulated) stocks and C-sugar supplies which are carried forward to the following marketing year. The minimum stocks system which had been in place since 1974 was abolished, along with the storage cost reimbursement scheme under the new sugar regime which went into effect in the 2001/2002 marketing year.

The 12 percent reduction in total ending stocks is attributed to lower production, which contributed to lower carryover of C-sugar as well. The nearly 60% reduction in C-sugar expected to be carried over to the 2002/2003 marketing year can also be attributed to the fact that the storage cost reimbursement scheme is no longer available. In 2002/2003, stocks are expected to rise again due to increased production, but only slightly, as producers will be looking to export as much sugar as possible to avoid paying storage costs.

## **Policy**

### **General**

The basic tools of the EU's sugar policy are: 1) import restrictions with limited free access for certain suppliers; 2) internal support prices that ensure returns to producers for a fixed quantity of production and permit the maintenance of refining capacity; and 3) export subsidies for a quantity of domestically produced sugar.

### **Production Policy**

The EU sugar regime reform was agreed at the May 2001 EU Agriculture Council and was published on June 30, 2001. It entered into force on July 1, just as the old regime was set to expire and will apply through the 2005/2006 marketing year. The 'reform' mostly rolls over the existing regime for an additional five years, with a few changes. One change is a permanent cut of 115,000 MT in the EU quota, as had been foreseen in the Commission's proposal. Storage aids will also be phased out. In addition, financing of production refunds for the chemical industry is now to be covered entirely by producer levies, whereas it had been partially funded by the EU budget under the old regime.

Council Regulation 1260/2001 set quotas for the production of "A" and "B" sugar from marketing years 2001/2002 through 2005/2006. EU member states allocate their shares of the A and B quotas among the sugar, isoglucose and inulin syrup-producing operations on their territories. The applicable quota levels per product and per member state

are shown in the tables below. These new quotas take into account the permanent reduction of 115,000 MT, and are also subject to annual review to ensure that the EU stays within its WTO limits for export subsidies for sugar. For the 2001/2002 marketing year, no additional reduction was imposed by the Commission, in contrast to marketing year 2000/2001, when a reduction of 498,799 MT was applied. The lowering of quotas according to the annual review takes into account Commission forecasts of production, imports, consumption, storage, carryover, exportable balance and average loss likely to be borne under the self-financing scheme. The Commission did not impose an additional reduction in 2001/2002 due to lower use of available subsidies by exporters along with a willingness to allow stocks to increase from the previous marketing year's level.

Table 5: EU sugar production quotas for MY 2001/02 - 2005/06

Member state or region	A sugar quota (MT white sugar)	B sugar quota (MT white sugar)
Belgium/Luxembourg	674,905.5	144,906.1
Denmark	325,000	95,745.5
Germany	2,612,913.3	803,982.2
Greece	288,638	28,863.8
Spain	957,082.4	39,878.5
France (metropolitan)	2,506,487.4	752,259.5
France (overseas departments)	463,872	46,372.5
Ireland	181,145.2	18,114.5
Italy	1,310,903.9	246,539.3
Netherlands	684,112.4	180,447.1
Austria	314,028.9	73,297.5
Portugal (continental)	63,380.2	6,338
Portugal (Azores)	9,048.2	904.8
Finland	132,806.3	13,280.4
Sweden	334,784.2	33,478
United Kingdom	1,035,115.4	103,511.5
Total	11,894,223.3	2,587,919.2

Source: Council Regulation 1260/2001 of June 19, 2001, Official Journal L 178

Table 6: EU Isoglucose production quotas for MY 2001/02 - 2005/06

Member state or region	A isoglucose quota (MT dry matter)	B isoglucose quota (MT dry matter)
Belgium/Luxembourg	56,150.6	15,441
Denmark	0.0	0.0
Germany	28,643.3	6,745.5
Greece	10,453	2,457.5
Spain	74,619.6	7,959.4
France (metropolitan)	15,747.1	4,098.6
France (overseas departments)	0.0	0.0
Ireland	0.0	0.0
Italy	16,432.1	3,869.8
Netherlands	7,364.6	1,734.5
Austria	0.0	0.0
Portugal (continental)	8,027	1,890.3
Portugal (Azores)	0.0	0.0
Finland	10,792	1,079.7
Sweden	0.0	0.0
United Kingdom	21,502	5,735.3
Total	249,731.3	51,011.6

Source: Council Regulation 1260/2001 of June 19, 2001, Official Journal L 178.

Table 7: EU Inulin syrup production quotas for MY 2001/02 - 2005/2006

Member state or region	A inulin syrup quota (MT dry matter)	B inulin syrup quota (MT dry matter)
Belgium/Luxembourg	174,218.6	41,028.2
France (metropolitan)	19,847.1	4,674.2
Netherlands	65,519.4	15,430.5
Total	259,585.1	61,132.9

Source: Council Regulation 1260/2001 of June 19, 2001, Official Journal L 178

Official prices were also set by Council Regulation 1260/2001 and are listed in the table below. The "minimum price" refers to the price sugar manufacturers are obliged to pay for the purchase of beet for processing into sugar.

The intervention price is increased for the areas of the EU considered to produce less sugar than their consumption needs, in order to encourage beet production in those areas. For the deficit areas of the EU, the derived intervention prices for white sugar under regulation 1260/2001 are: **€** 64.65/100 kg for Ireland, the UK, Portugal and Finland and **€** 64.88/100 kg for Spain.

Table 8: Official prices in the EU sugar sector for MY 2001/2002 - 2005/2006

White sugar intervention price	63.19 <b>€</b> /100 kg
Raw sugar intervention price	52.37 <b>€</b> /100 kg
Basic price for beet	47.67 <b>€</b> /MT
Minimum price for "A" beet	46.72 <b>€</b> /MT
Minimum price for "B" beet	32.42 <b>€</b> /MT

Since 1986/87 EU producers have borne the full financial responsibility for disposal of their production which exceeds internal consumption on an annual basis. Production levies are charged to recoup for the Community budget the cost of export subsidies for quota sugar exports to the world market. Producers pay, to the competent EU member state authorities, a basic production levy of 2 percent of the intervention price (white sugar) on their A and B sugar volume. If this basic amount is not sufficient to cover the costs, a levy on B quota volumes of up to 37.5 percent. When the B quota levy is increased, the minimum price for B beets is decreased. Supplementary levies may also be set if these are not sufficient to dispose of surpluses.

For marketing year 1999/2000, the European Commission set the "B-quota" production levy at its maximum level of 37.5 percent and also had to set supplementary levies that increased the total funding for 1999/2000 by 18.506 percent. For the 2000/2001 marketing year, the B-quota production levy was set below the maximum level, at only 20.7 percent and no supplementary levies were needed. This is consistent with the reduced expenditure on export subsidies for sugar and incorporated products in 2000/2001 (see export policy). Note that while producer levies ensure that the EU sugar system is self-financing to a large extent, export subsidies for the quantity of sugar equal to the EU's "preferential imports" are paid for from the EU budget (see Import Policy).

Any quantity of sugar, which is produced outside the sum of total "A" and "B" quotas is called "C-sugar". According to EU legislation, "C-sugar" must be sold on the world market without export subsidies or carried over to the following marketing year. Penalties apply in cases where C sugar is disposed of contrary to the regulations in force. After having produced 5.180 MMT (raw sugar equivalent) of "C-sugar" in 2000/2001, current estimates for 2001/02 show an overshoot of total "A" and "B" sugar production quota of only 1.915 MMT, due to the significantly reduced production in 2001/2002. See Table 9 for details per EU member state.

Table 9: C-sugar supplies by EU member state, 2000/2001 & 2001/02  
(1,000 MT raw sugar value)

	2000/2001	2001/02 estimates
Denmark	183	87
Germany	1383	416
Greece	60	57
Spain	272	98
France	1773	658
Ireland	45	28
Italy	317	98
Netherlands	327	97
Austria	105	73
Portugal	0	0
Finland	29	22
Sweden	95	64
Belgium/Lux.	245	74
U.K.	347	145
Total	5,180	1,915

Source: European Commission

### National aids

Some national aids were maintained under the new regime in order to compensate for difficulties in maintaining beet and cane production in certain regions of the EU. Under the new regime, Italy is authorized to grant adjustment aid, which may not exceed **€** 5.43 per 100 kg of white sugar to sugar beet producers and sugar producers for the production of sugar within the A and B quotas in the regions of Abruzzi, Molise, Apulia, Sardinia, Campania, Basilicata, Calabria and Sicily. When exceptional circumstances require, Italy may adjust this aid. Spain is authorized to grant aid not exceeding **€** 7.25 per 100 kg of white sugar to sugar cane producers for the production of quota sugar. Portugal is authorized to grant aid which may not exceed **€** 3.11 per 100 kg of white sugar to sugar beet producers located on the mainland territory for quota sugar.

In addition, due to the variability of production conditions in Finland, a flat-rate reimbursement of storage costs for C sugar may be granted from 2001/2002 to 2005/2006. Commission Decision 2002/99/EC sets the maximum amount of the reimbursement at EUR 0.33 per 100 kg of white sugar per month. The reimbursement is paid for each month that the sugar remains in storage until the 12 consecutive months of the compulsory storage have passed.

Flat-rate aids are also paid for transportation and refining in the EU of sugar produced in French Overseas Departments. For Reunion and Martinique, there is an aid of **€** 17 per tonne (white sugar equivalent) and for Guadeloupe, **€** 24 per tonne to cover transportation of raw sugar from production areas to ports. There is an additional aid, set based on prevailing freight costs, to cover the transportation costs to European ports. In addition, a flat-rate aid of **€** 0.33 per 100 kg (white sugar equivalent) per month is paid for sugar held in storage by producers in the French Overseas Departments.

### Import policy

All products covered by the common organization of the markets in the sugar sector are subject to the rates of import duty listed in the Common Customs Tariff. Common Customs import tariffs are **€** 33.9/100 kg for raw sugar for refining and **€** 41.9/100 kg for other raw sugar and refined sugar. It should be noted, however, that additional import duties may be set in order to prevent or counteract adverse effects on the EU market. Since July 1, 1995, a system of additional duties increasing in line with the difference between the world import price and the trigger price has been in place. The trigger prices below which an additional duty may be imposed are notified by the EU to the WTO. Additional duties currently (effective March 12, 2002) applicable to imports of sugar are **€** 6.41/100 kg for raw cane sugar for refining, **€** 6.22/100 kg for raw beet sugar for refining and **€** 11.39/100 kg for white sugar. The Commission also periodically sets representative prices and associated additional import duties for molasses. As of March 21, 2002, the additional duty is set at 0.

The majority of third country sugar shipped to the EU is, however, imported under special import quotas. "Preferential sugar" is imported at zero duty. The total duty-free import quota amounts to 1,304,700 tons (white sugar equivalent), of which 10,000 tons for cane sugar originating in India and 1,294,700 tons for cane sugar originating in the countries covered by the ACP-EU Partnership Agreement, signed in Cotonou in June 2000 (Barbados, Belize, the Republic of the Congo, Fiji, Guyana, Ivory Coast, Jamaica, Kenya, Madagascar, Malawi, Mauritius, Suriname, St. Christopher & Nevis, Swaziland, Tanzania, Trinidad & Tobago, Uganda, Zambia, Zimbabwe). The purchase price for Preferential Sugar is negotiated annually between the EU and the ACP states. In practice, this price has been equivalent to the derived intervention price for raw sugar in the U.K. Preferential imports provide a guaranteed income to ACP states, the EU being committed to buy at the guaranteed price through the Intervention Agencies in case no other buyer can be found. Buying through intervention agencies has not occurred to date.

Under the new sugar regime, for the 2001/2002 through 2005/2006 marketing years, adjustment aid is granted as an intervention measure to the industry refining preferential raw cane sugar (only for quantities refined into white sugar). The aid is **€** 0.10 per 100 kg white sugar equivalent. An additional basic aid of **€** 0.10 per 100 kg shall be granted for refineries refining raw cane sugar produced in the French Overseas Departments.

There are also special import arrangements for agricultural products, including sugar, produced in Balkan countries (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and the Federal Republic of Yugoslavia). Starting in September 2000, tariffs and quantitative restrictions were removed for all sugar products produced in these countries. Access to the preferential arrangements is subject to these countries' continued participation in the European Union's Stabilization and Association process and compliance with EU definitions of "originating products." There is no limit to the amount of sugar which may be exported by these countries under these arrangements, other than their capacity to produce sugar. There is no set minimum purchase price.

In addition to preferential imports, the Commission also sets an annual tariff quota, called the “mfn quota” for the supply of raw cane sugar to Community refineries. Following the accession of Finland, the EU has undertaken to import, as from January 1, 1996, 85,463 MT of raw cane sugar from third countries intended for refining at a reduced duty of EUR 98/MT. The quota allocation by country of origin is as follows: Cuba 58,969 MT, Brazil 23,930 MT, other third countries 2,564 MT.

Annual maximum supply needs (MSN) for EU refineries have been established through Council Regulation 1260/2001 as 1,776,766 MT white sugar equivalent. This is broken down as 59,925 MT for Finland, 296,627 MT for continental France, 291,633 MT for mainland Portugal, and 1,128,581 MT for the U.K. The MSNs are to be met by imports from the French overseas departments, the Preferential Imports, and imports under the mfn quota.

Any balance remaining after these imports, must be met by a "Special Preferential Imports" quota opened on an annual basis in two tranches for the imports of raw cane sugar for refining which originates in ACP states and India. A special reduced rate of duty applying to these imports is fixed on an annual basis. From July 2001 through February 2002, the reduced rate of duty is set at 0 and the quota level is set at 171,000 tons white sugar equivalent. 161,000 tons must be of ACP origin, with the remaining 10,000 coming from India. Finland and mainland Portugal are authorized to import under the quota, with allocations of 30,000 and 141,000 tons respectively. The quantity from March 1 to June 20, 2002 is set at 42,448 tons from ACP countries at 0 duty, broken down as follows: Finland - 2,803 tons, metropolitan France - 14,454 tons, mainland Portugal - 15,024 tons, UK - 10,167 tons. EU refiners participating in this special reduced duty system must pay a minimum purchase price to the countries of origin of  $\text{€ } 49.68/100 \text{ kg}$  of standard quality raw sugar.

At the end of February 2001, the EU General Affairs Council adopted the "Everything but Arms (EBA) proposal", originally submitted by Directorate-General Trade of the European Commission. According to this proposal, quotas and duties are eliminated on all products except arms from the 48 poorest countries in the world (LDC). The original proposal, submitted in September 2000, intended to start implementation immediately after adoption, with the exception of a gradual implementation over three years for bananas, sugar and rice. Fierce opposition from Directorate-General Agriculture and the agricultural sectors concerned led to several amendments agreed to in the end. For sugar in particular, it was argued that EU budgetary implications needed to be taken into account, and market assessment studies needed to be carried out before member states could agree to the proposal.

The approved version of the EBA proposal is laid out in Council Regulation 416/2001 of February 28, 2001. It provides for free access for sugar through a process of progressive tariff elimination starting in 2006, when the current EU financial guidelines expire, and leads to full liberalization in 2009. Common Customs Tariff duties on the products of tariff heading 1701 (i.e., cane or beet sugar and chemically pure sucrose, in solid form) will be reduced by 20 percent on July 1, 2006, by 50 percent on July 1, 2007, and by 80 percent on July 1, 2008. They will be entirely suspended as from July 1, 2009. From July 1, 2001 till July 1, 2009, the EU Commission will open zero-duty tariff quotas for raw cane sugar for refining, initially amounting to 74,185 MT white sugar equivalent and increasing by 15 percent in each subsequent marketing year (July-June). Initial quota amounts are based on best export levels of LDC to the EU in the recent past.

Table 10: EBA Quota levels 2001/02 - 2008/09

Marketing year	Quantity in tons (raw sugar)
2001/2002	74,185
2002/2003	85,313
2003/2004	98,110
2004/2005	112,826
2005/2006	129,750
2006/2007	149,213
2007/2008	171,595
2008/2009	197,335

In order to alleviate concerns that these changes would be too disruptive to the EU sugar market, the European Council has inserted a safeguard clause in the regulation stating that preferences may be suspended if imports cause serious disturbance to the Community markets and their regulatory mechanisms. Preferences would then be suspended according to the procedure generally applicable under the scheme of generalized tariff preferences (GSP).

Furthermore, the regulation contains a "temporary withdrawal clause", which would reintroduce common customs tariff duties in case of fraud or failure to provide administrative cooperation as required for the verification of certificates of origin, or massive imports into the EU from LDC in relation to their usual levels of production and export capacity.

In practice, EBA is not expected to have any appreciable effect on the sugar market in the near future because the additional imports under the EBA quota will be off-set by reduced Special Preferential Sugar imports. This is illustrated in the breakdown of the MSN's shown in Table 11 below. Also, the capacity for LDC countries to produce sugar is limited and there is not likely to be much additional investment to increase capacity with the future of the EU sugar regime unknown after 2005/2006. LDC's are not the lowest cost producers on the world market and therefore would find it difficult to compete if EU prices are lowered as a result of sugar reform, a new WTO agreement or further liberalization through the EU-ACP Partnership agreement.

Table 11: Conceptual breakdown of EU Maximum Supply Needs

Origin	Quantity (tons white sugars equivalent)
French Overseas Departments	no limit, but estimated at 50,000
Balkans	no limit, but estimated at 50,000 - 60,000
MFN quota	85,463
ACP + India (Cotonou agreement)	1,305,000
EBA (48 Least Developed Countries)	Increasing from 74,185 to 197,335
Special Preferential Sugar (ACP + India)	Adjusted as needed to make total

Total	1,776,766
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According to the EU's WTO notification of imports under tariff quotas for the marketing year 2000/2001 (July 1, 2000 through June 30, 2001), the following WTO quotas were filled in the sugar sector:

Table 12: 2000/2001 EU WTO notification

Description of Products	Tariff code	Quota quantity	In-quota imports
Cane or beet sugar	1701	1,304,700 t	1,304,700 t
Raw cane sugar, for refining	1701 11 10	85,463 t	85,463 t
Chemically pure fructose	1702 50 00	4,504 t	4,504 t

Overall imports during the period October 1-September 30, 2000/2001, broken down by country of origin, are shown in the Annex to this report.

## Export Policy

Since marketing year 1995/96, subsidized exports of sugar to third countries are limited, in volume and in value, under the GATT Uruguay Round Commitments of the EU. The EU's export subsidy commitments for sugar up to the year 2000/01, together with actual exports are shown in Table 13 below. Note: The Community did not make an export subsidy commitment on its subsidized exports of a quantity of sugar equal to its preferential imports; the cost and volume of those export subsidies (on average 1.6 MMT) are not included in the table. There are also special measures for exports to EU outlying regions, such as the Canary Islands. These outlying regions have three options for sourcing sugar: they may import from the world market, import C sugar from the EU (at world market prices) or import quota sugar from EU with an aid equivalent to the export subsidy. Of the approximately 70,000 MT imported by these regions, 60,000 MT is C sugar from the EU.

Table 13: EU export subsidies 1995/96-2000/01, annual commitments versus actual subsidized exports

MY (Oct-Sept.)	Volume (1,000 MT white sugar equivalent)		Budget (million EUR)	
	Annual commitment	Actual subsidized exports	Annual commitment	Actual subsidized exports
1995/96	1,555.6	856.3	733.1	379.0
1996/97	1,499.2	1,200.3	686.3	525.0
1997/98	1,442.7	1,699.1	639.5	779.0

1998/99	1,386.3	1,546.1	592.7	794.8
1999/2000	1,329.9	970.6	545.9	470.1
2000/2001	1,273.5	882.2	499.1	372.7

Source: Schedule CXL: European Communities, Part IV Agricultural Products

So far, during the open market tender series of 2001/02 (July 25, 2001-March 21, 2002), the European Commission has awarded export licenses for 1.578 MMT of white sugar, slightly lower than the 1.6 MMT awarded during the same period of 2000/2001. The average export subsidy level so far during 2001/02, is i 426.2/MT, a slight increase of 2 percent vis-a-vis the same period in 2000/2001. As was the case in 2000/2001, export license issuance is behind the pace that would be required for available licenses to be fully utilized by the end of the series. This is attributed to prudence on the part of the European Commission not to exceed GATT limits, as well as budget constraints. The poor harvest in 2001/2002 has also had an impact.

### **Brazil WTO case**

Brazilian officials have stated that Brazil is considering bringing a WTO case against the EU sugar regime. Drawing on the arguments of the dairy case brought by the US against Canada, Brazil would reportedly argue that the EU regime causes "cross-subsidization" of C-sugar (which must be exported, without subsidy), through support of the A and B quota sugar. They would also challenge the fact that the EU exports, with subsidy, an amount of refined sugar equivalent to the raw sugar imported from ACP and other countries under preferences, but does not count it against EU export subsidy reduction commitments. However, these preferential imports are counted against the EU's market access commitments. The EU has responded that the EU regime is transparent and operates within EU WTO commitments. To date, no formal action has been taken, but a WTO case remains "under consideration."

### **Enlargement**

On January 30, 2002, the European Commission published its overall proposal for extending the Common Agricultural Policy to EU accession candidates. The candidates include the ten central and eastern European countries expected to join the EU in 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. The proposal will now be discussed by the Member States in the Council, which is expected to decide on a common position by June. Only then can negotiations with the candidate countries begin. Due to the highly political nature of the budgetary questions, the negotiations on agriculture are expected to last into December. Once negotiations are complete, the European Parliament has the right to assent or dissent to the accession treaty as a whole (they may not propose amendments) and member states as well as accession candidates must also ratify the treaty according to their procedures. If negotiations are completed by the end of 2002, accession could take place by 2004 as currently anticipated.

The proposals include the Commission's suggestions for extending the sugar quota regime to the candidate countries. While these proposals must still be approved by the Council before they will be the EU's official position, it is not seen as likely that the final result will be significantly different from the Commission's proposal. According to the current proposal, all aspects of the sugar regime will be directly and fully applicable in the new member countries when they accede. The Commission did not propose a transition period for phasing in intervention prices or official EU prices.

More details may become available when the EU publishes Draft Common Positions for each candidate country in mid to late April.

The Commission proposed quotas for sugar and isoglucose production in the candidate countries based on their average production from 1995 - 1999. For net importing countries (such as Estonia, Slovenia and Latvia) the A quota is set equal to net production and the B quota is set at 10% of the A quota. For net exporting countries (Poland, Czech Republic, Hungary, Lithuania and Slovakia), the A quota is set equal to the portion of net production consumed domestically and the B quota is set equal to net exports. However, in order to ensure that the EU is able to dispose of additional surplus sugar without exceeding WTO export subsidy limits, the total A and B quotas for each country do not exceed internal consumption plus the quantity that can be exported within WTO commitments. See the tables below for the Commission's proposed quota's for each candidate country.

Several candidate countries have indicated disappointment with the Commission's use of the 1995 - 1999 base period as they consider their more recent production figures to be more representative of true industry capacity and consumption needs. This is particularly apparent in the case of isoglucose production which has increased substantially in the past few years in certain candidate countries. While there may be small scope for candidates to dispute the data used by the Commission, it is unlikely that the Commission would deviate from the basic methodology, which is also used for other agricultural sectors. In addition, while candidate countries argue that consumption is likely to increase with economic growth, sugar prices are likely to rise by 30-50% as a result of their implementation of the EU quota regime and border measures, which is likely to have the opposite effect on demand. In some candidate countries, per capita consumption of sugar is already higher than in the EU.

Table 14: Candidate Country Requests and Commission Proposals for sugar quotas

Candidate Country	Sugar quotas requested (t)			Sugar quotas proposed (t)		
	Total	A	B	Total	A	B
Cyprus	-	-	-	-	-	-
Czech Republic	505,000	-	-	445,237	441,409	3,828
Estonia	75,000	65,000	10,000	-	-	-
Hungary	480,000	400,000	80,000	380,021	378,791	1,230
Latvia	110,000	100,000	10,000	52,482	47,711	4,771
Lithuania	165,000	150,000	15,000	96,241	96,241	-
Malta	-	-	-	-	-	-
Poland	1,866,000	1,650,000	216,000	1,665,017	1,590,533	74,484
Slovakia	235,000	190,000	45,000	208,736	189,760	18,976
Slovenia	75,000	67,500	7,500	52,977	48,161	4,816
Total	3,511,000	2,622,500	383,500	2,900,711	2,792,606	108,105

Table 15: Candidate Country Requests and Commission Proposals for isoglucose quotas

Candidate Country	Isoglucose quotas requested			Isoglucose quotas proposed		
	Total	A	B	Total	A	B
Hungary	140,000	130,000	10,000	111,244	111,244	0
Poland	20,000	15,000	5,000	2,493	2,493	0
Slovakia	60,000	50,000	10,000	3,220	3,220	0
Total	220,000	195,000	25,000	116,957	116,957	0

### Future developments

While some member states and confectionary industry representatives are calling for reform of the sugar regime as part of the mid-term review of the Common Agricultural Policy set to take place in 2002/2003, it is unlikely that reform will take place before the end of the current regime in 2005/2006. The largely self-financing aspect of the sugar regime minimizes the budgetary pressure from enlargement that may force reform in other sectors. As part of the new regime in 2001/2002, the Commission ordered studies of the sugar sector to aid the EU in devising a post 2005/2006 regime. Once the studies are finished, most likely 2003, discussion can begin on a new regime. There are several factors which must be taken into account in the longer term in the EU sugar sector, including increased liberalization vis-a-vis developing countries, enlargement and WTO negotiations. While LDC sugar production potential is limited, there is movement towards extending EBA-type liberalization to all ACP's under the Cotonou agreement, which foresees eventual regional free trade agreements between the EU and the ACP's. ACP's have the capacity to produce significantly more sugar than LDC's but may not push for full liberalization as they would then lose their guaranteed high price in the EU market. .

## ANNEX: EU-15 IMPORTS AND EXPORTS OF SUGAR DURING 1999/2000

Notes:

1/ Source: EUROSTAT

2/ All figures in MT of raw sugar equivalent.

3/ Period: October 1, 2000-September 30, 2001. Note that data for Greece for the month of September 2001 is not available, and therefore is not included.

4/ Effective January 1, 1997, EUROSTAT considers trade with Canary Islands and French Overseas Departments (Reunion, Martinique, Guadeloupe, French Guyana) as intra-EU trade. Therefore, trade data in these tables does not contain trade with Canary Islands, nor with French Overseas Departments.

### TOTAL SUGAR IMPORTS INTO THE EU-15, 2000/2001

Origin	IMPORTS (MT raw sugar equivalent)
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ACP COUNTRIES UNDER SPECIAL QUOTA:	1,654,446
of which:	
Mauritius	555,402
Fiji	242,504
Guyana	196,735
Swaziland	170,248
Jamaica	145,030
Zimbabwe	65,859
Trinidad & Tobago	59,623
Barbados	48,923
Belize	45,190
Malawi	37,996
St. Christopher & Nevis	21,610
Ivory Coast	15,462
Zambia	14,514
Tanzania	13,247
Madagascar	13,064
Kenya	3,565
South Africa	3,541
Congo	1,934
INDIA:	21,090
BALKANS:	27,753
of which:	
Croatia	23,219
Serbia-Montenegro	4,518

Bosnia-Herzegovina	16
OTHER IMPORTS UNDER MFN:	123,609
of which:	
Cuba	59,184
Brazil	37,846
Paraguay	4,394
Myanmar	3,581
Argentina	3,529
El Salvador	2,593
Czech Republic	2,586
Switzerland	2,441
Netherlands Antilles	1,293
Costa Rica	1,000
U.S.	959
All others	4,204
ALL OTHERS (non-WTO members):	12,374
of which:	
Aruba	11,987
China	359
all others	28
GRAND TOTAL:	1,839,273

TOTAL SUGAR EXPORTS FROM THE EU-15, 2000/2001

Destination	EXPORTS (MT raw sugar equivalent)
Algeria	832,873
Syria	459,194
Israel	404,714
U.A. Emirates	289,364
Egypt	283,211
Russia	230,993
Iraq	228,218
Nigeria	192,656
Sri Lanka	189,193
Norway	189,050
Switzerland	169,855
Jordan	169,641
Libya	159,251
Serbia-Montenegro	144,589
Mauritania	142,034
Indonesia	141,090
Tunisia	138,183
Lebanon	110,906
Uzbekistan	103,238
Bosnia-Herzegovina	89,413
Yemen	87,955
Angola	80,764
Estonia	76,939
Guinea	75,679
Latvia	68,579
Kuwait	66,978

All others	1,483,133
GRAND TOTAL	6,607,693